

# 2015 Income Tax Credit Review

## Joint Legislative Income Tax Credit Review Committee

December 14, 2015

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JLBC

# 2015 Credit Reviews

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- ❑ Annually reviews credits as determined in statute
- ❑ This year's review includes:
  - Employment of National Guard Members Credit
  - Employment of TANF Recipients Credit
  - Contributions to Qualifying Charitable Organizations Credit
- ❑ All 3 credits were last reviewed in 2010

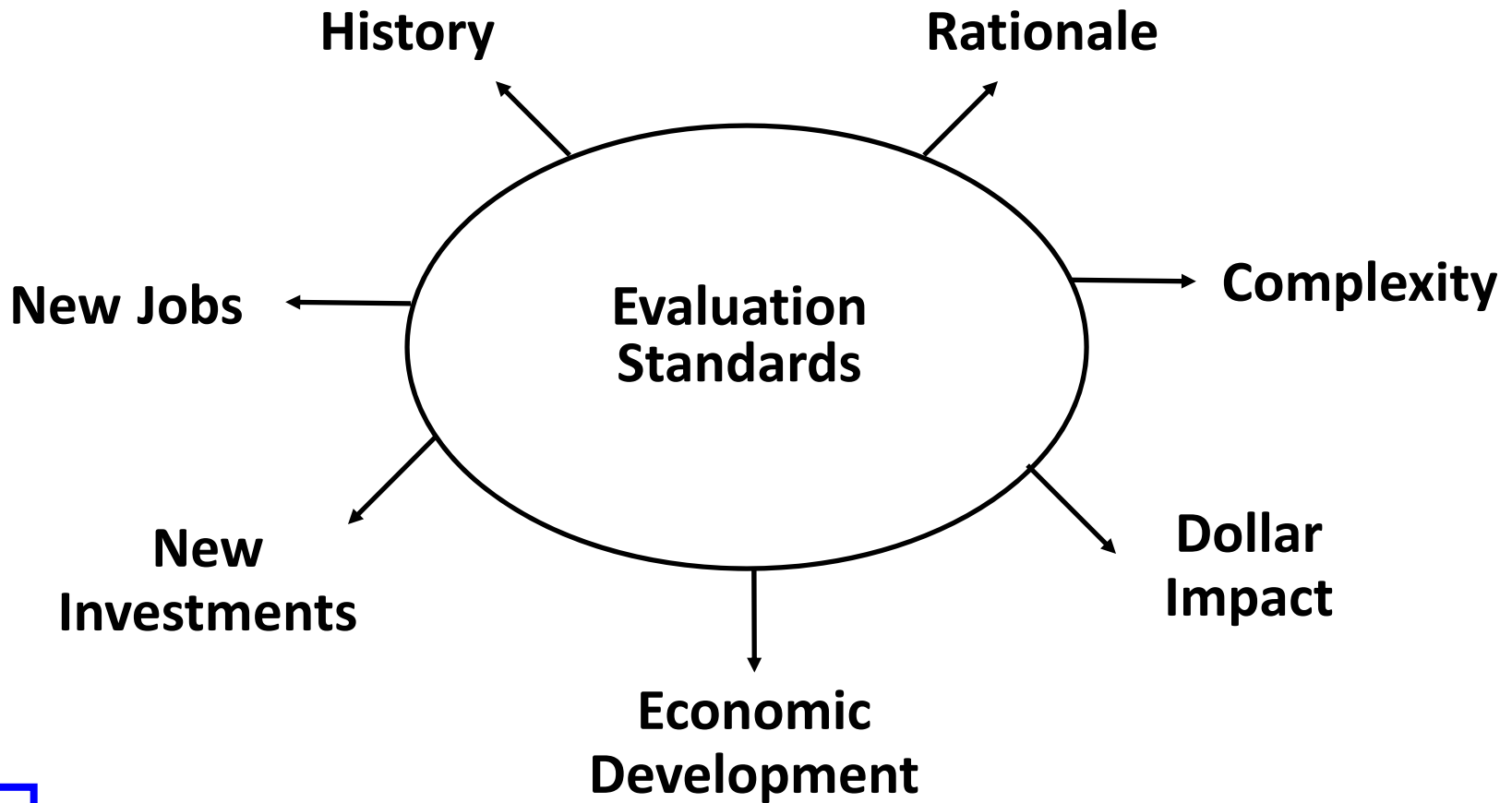
# Role of the Committee

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- Determine original purpose of tax credit
- Establish standards for evaluating and measuring success or failure
- Recommend changes

# Statute Provides Possible Standards

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# Confidential Taxpayer Information

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- ❑ Statute authorizes DOR to disclose confidential “statistical information” to the Committee and the JLBC Staff
- ❑ DOR considers credit information confidential if:
  - credits were claimed by 3 or fewer taxpayers, or
  - a single taxpayer used more than 90% of total credits
- ❑ 2 of 3 credits have confidential information
- ❑ Since no material impact on evaluation, data is excluded from JLBC presentations

# Issues Affecting Evaluation

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- ❑ Lack of performance measures
- ❑ Certain costs and benefits can be difficult to quantify

# Employment of National Guard Members Credit

## – Summary

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- ❑ Cost - \$9,050 in tax year 2013 for the corporate credit and \$0 for the individual credit.
  - 38 claims filed by corporations between 2006 and 2013
  - 12 claims filed by individuals between 2006 and 2014
- ❑ Purpose – mitigate costs incurred by employers who employ active duty National Guard members.
- ❑ Complexity – simple to use and administer.
- ❑ Performance Measures – none in statute.

# Employment of National Guard Members Credit

## – Description of Credit

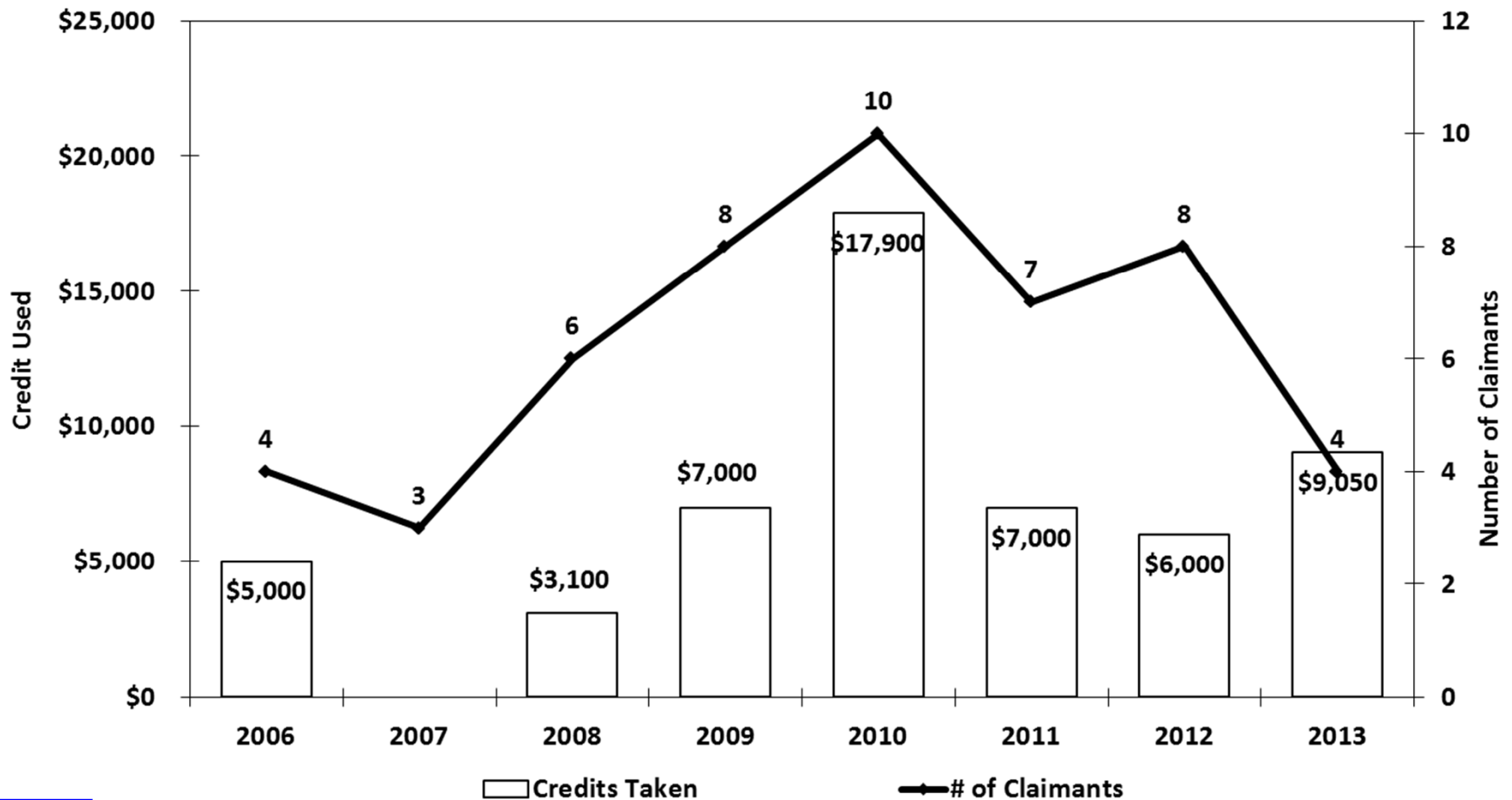
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- The credit provides \$1,000 per National Guard member that is deployed on active duty, per year.
- Credit is nonrefundable.
- Carry forward is 5 years.



# Employment of National Guard Members Credit

## – Amount of Credits Taken & Number of Claimants



# Employment of National Guard Members Credit

## – Benefits to the Arizona Economy

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- ❑ Impact on the state's economy is likely negligible due to the limited use of the credit.
- ❑ Credit may have a small positive impact on the retention and employment prospects of National Guards members insofar as it encourages employers to hire members.

# Employment of National Guard Members Credit

## – Potential Performance Measures

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- The number of employers claiming the credit and the number of National Guardsmen claimed under this credit can be determined from available data.
- No additional performance measures are suggested.

# Employment of TANF Recipients Credit

## – Summary

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- ❑ Cost - \$111,500 in 2013 for the corporate credit. No cost for the individual credit.
- ❑ Purpose – to encourage employers to hire TANF recipients into permanent jobs and reduce their reliance on public assistance.
- ❑ Complexity – relatively simple to use and administer, with some reporting and record-keeping requirements.
- ❑ Performance Measures – none in statute.

# Employment of TANF Recipients Credit

## – Description of Credit

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- Corporate and individual income tax credit for employing Temporary Assistance for Needy Families (TANF) recipients.
- TANF is DES' cash assistance program for low-income households.
- TANF participation has dropped significantly over the last several years. In part, the decline is due to a 2-year time-cap on benefits.
  - Participation fell from 44,000 in October 2010 to 23,000 now

# Employment of TANF Recipients Credit

## – Description of Credit

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- Credit of up to \$500 in the first year of employment, \$1,000 in the second year, and \$1,500 in the third year.
- Jobs must be full-time and offer wages and benefits comparable to other employees.
- 5-year carry-forward.
- The credit is relatively modest compared to similar federal income tax credits.

# Employment of TANF Recipients Credit

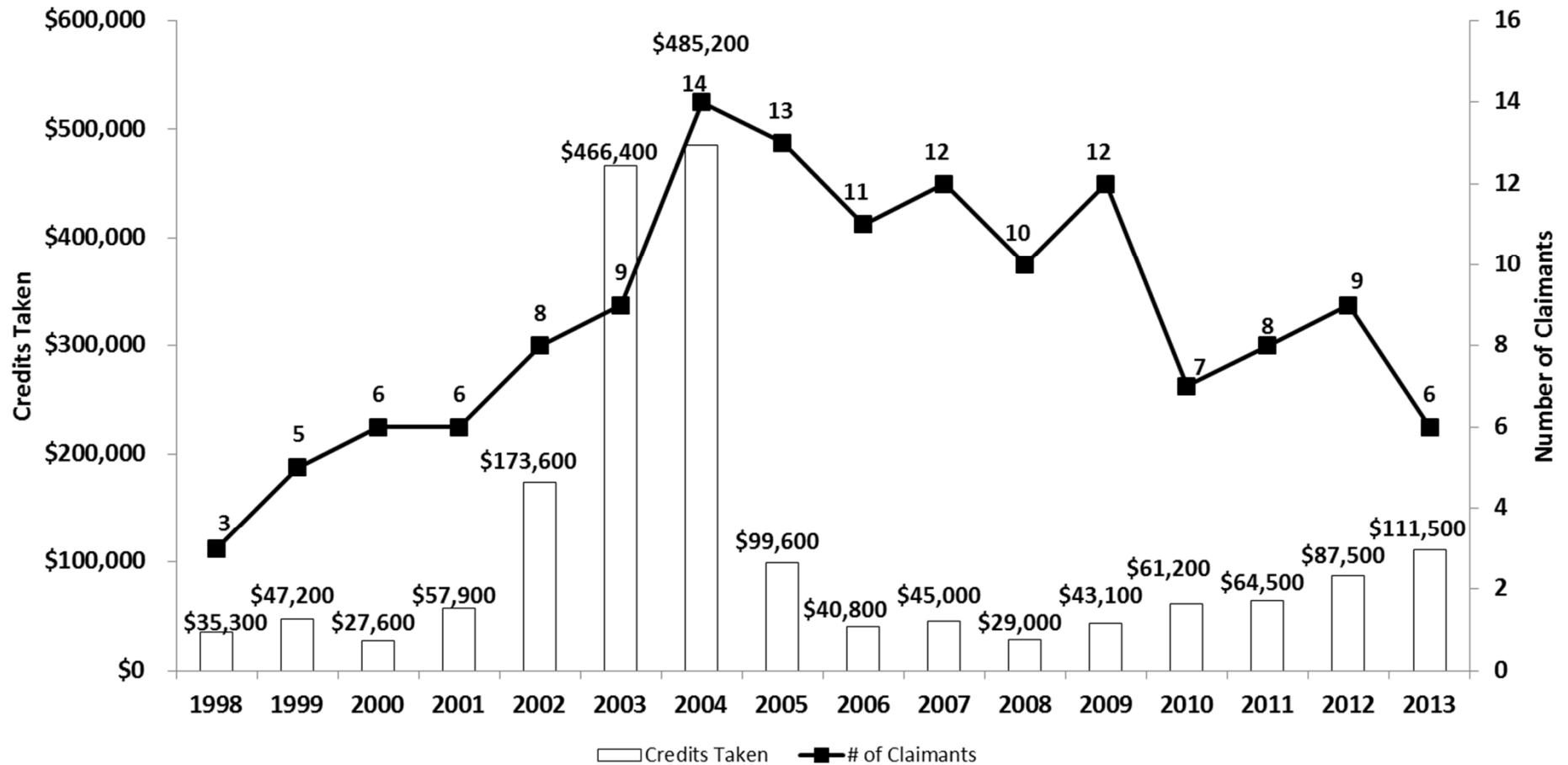
## – Federal Work Opportunity Tax Credit (WOTC)

- ❑ Federal credit encourages employers to hire 9 targeted groups of job seekers including Short-Term and Long-Term TANF recipients.
- ❑ Up to \$4,000 in the first year, and \$5,000 in the second year.

Combined Value of State and Federal TANF Credits			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
State TANF Credit	\$ 500	\$1,000	\$1,500
Federal WOTC Credit	4,000	5,000	
Wage Expense Deductions	<u>(1,700)</u>	<u>(2,100)</u>	<u>(100)</u>
<b>Net Value Per Employee</b>	<b>\$2,800</b>	<b>\$3,900</b>	<b>\$1,400</b>

# Employment of TANF Recipients Credit

## – Amount of Corporate Credits Taken & Number of Claimants





# Employment of TANF Recipients Credit

## – Benefits to the Arizona Economy

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- ❑ It is difficult to establish a direct link between the credit and economic development.
- ❑ The credit may have a positive impact on the retention and employment prospects of TANF recipients, and subsequently reduce reliance on government assistance.

# Employment of TANF Recipients Credit

## – Potential Performance Measures

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- 2- and 3-year retention rates for employees claimed under the credit.
- Last reviewed in 2010. No changes recommended.

# Qualifying Charitable Organizations Tax Credit

## – Summary

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- Cost – \$28.2 million in tax year 2014  
– 105,539 claims
- Purpose – encourage increased cash contributions to charities that help welfare recipients, low-income persons, chronically ill or disabled children, or foster children
- Complexity – simple to use and administer
- Performance Measures – none in statute

# Qualifying Charitable Organizations

## – Description of General QCO Credit Component

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- Credit is available to individuals who make cash contributions to qualifying charities
- Taxpayer does not need to itemize deductions to claim
- A QCO is required to:
  - be a 501(c)(3) or designated community action agency
  - spend  $\geq 50\%$  of its budget on services to welfare recipients, low-income persons, or chronically ill or disabled children
  - Affirm that it does not provide, pay for or provide coverage of abortions

# Qualifying Foster Care Charitable Organizations

## – Description of QFCO Credit Component

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- New credit beginning in 2013
- A QFCO is required to:
  - meet all requirements of a general QCO
  - spend  $\geq 50\%$  of its budget on services to at least 200 foster children in Arizona

# Qualifying Charitable Organizations Tax Credit

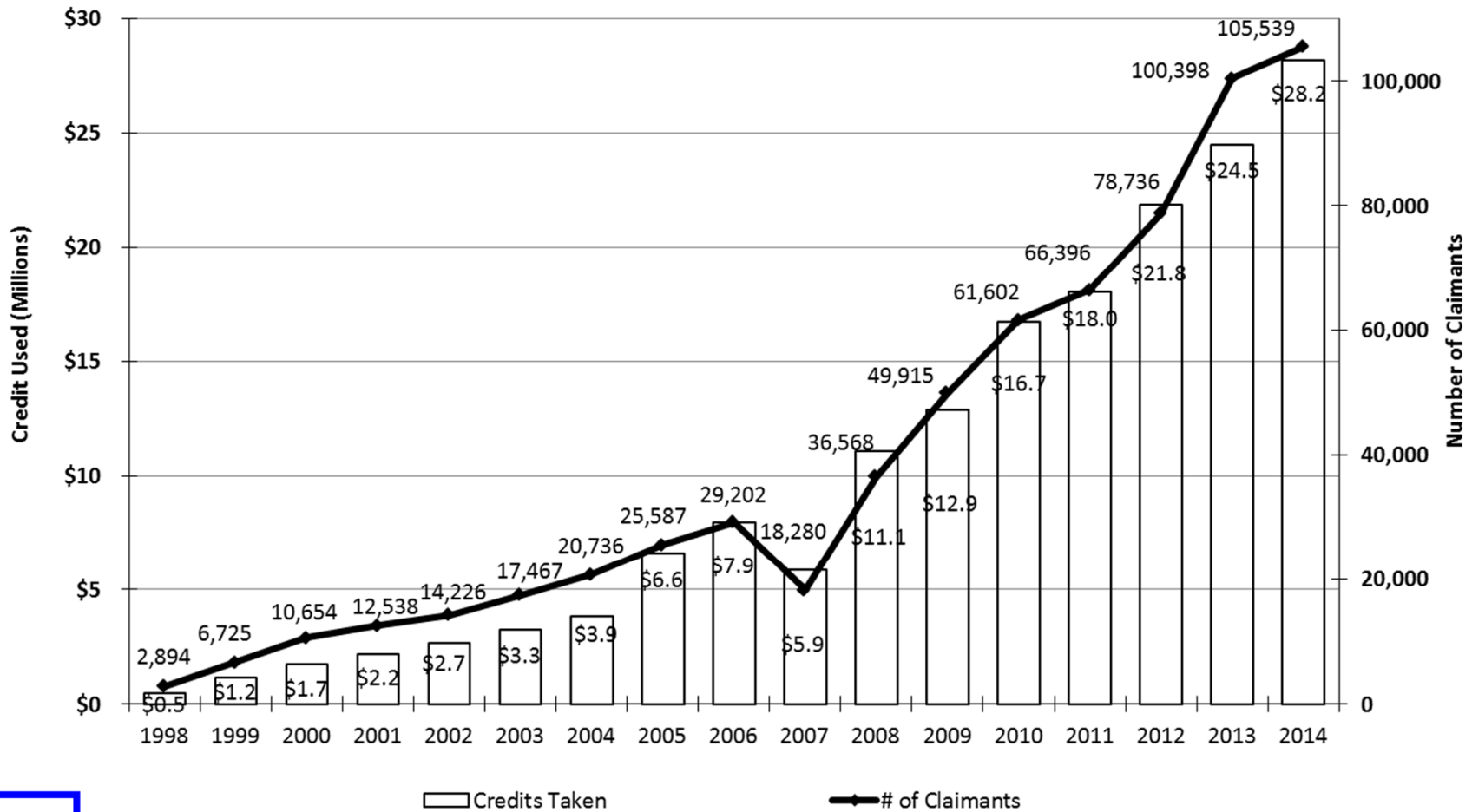
## – Description of Credit (Cont'd)

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- More than 600 charitable organizations are currently listed on DOR's website, including 25 foster care organizations
- Credit is available to all individual filers
- Maximum QCO credit is \$200 for singles and heads of household and \$400 for married couples
- Maximum QCFO credit is \$400 for singles and heads of household and \$800 for married couples
- A taxpayer may claim both credits
- Credit is nonrefundable
- Credit carry-forward is 5 years

# Qualifying Charitable Organizations Tax Credit

## – Amount of Credits Taken & Number of Claimants



# Qualifying Charitable Organizations Tax Credit

## – Benefits to the Arizona Economy

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- Available data does not indicate to what extent donations to qualifying charities represent new or additional giving
- Credit may encourage some donors to reallocate their contributions for tax purposes



# Qualifying Charitable Organizations Tax Credit

## – Potential Performance Measures

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- Number of Arizona residents benefiting from services provided as a result of credit donations
- Type of services provided and amounts allocated to such services
- Last reviewed in 2010
  - Committee recommended continuation of the credit